

Message Text

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AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

LIMITED OFFICIAL USE SECTION 1 OF 2 NEW DELHI 3252

E.O. 11652: N/A

TAGS: ENRG, ETRD, IN

SUBJ: TRADE AND INVESTMENT OPPORTUNITIES ARISING FROM
ENERGY SITUATION

REF: STATE 40537

SUMMARY: THE ENERGY SITUATION HAS ALREADY HAD AND WILL
CONTINUE TO HAVE A MAJOR EFFECT ON THE INDIAN ECONOMY,
FOREIGN TRADE PATTERNS AND EVEN ATTITUDES TOWARDS FOREIGN
INVESTMENT. WHILE THE IMPACT ON INDIVIDUAL US COMMERCIAL
INTERESTS IS VARIABLE, THE OVERALL IMPACT IS TO OFFER
NEW MARKET AND INVESTMENT POSSIBILITIES. END SUMMARY.

1. THE ENERGY SITUATION WITH ITS EFFECTS ON INDIAN
AGRICULTURE, INDUSTRY AND FOREIGN TRADE AND FOREIGN
EXCHANGE IS CONSTANTLY ON THE FRONT PAGES OF THE INDIAN
PRESS AND, DIRECTLY OR INDIRECTLY, IT AFFECTS VIRTUALLY
ALL ASPECTS OF INDIAN ECONOMIC LIFE. THE IMPACT OF THE
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ENERGY SITUATION ON THE INDIAN ECONOMY HAS BEEN DEALT

WITH IN SEPARATE MESSAGES. THIS TELEGRAM FOCUSES ON THE COMMERCIAL SIGNIFICANCE OF THESE DEVELOPMENTS FOR US BUSINESS, INTERNATIONAL TRADERS, INVESTORS AND FINANCIERS.

2. THIS IMPACT CAN BE ANALYZED ON THREE LEVELS - PRIMARY (PETROLEUM AND PETROLEUM RELATED), SECONDARY (COAL RELATED AND FERTILIZERS, ETC.) AND INDIRECT (GENERAL IMPACT ON FOREIGN TRADE AND INVESTMENT).

3. ON THE FIRST LEVEL, INDIA IS ENGAGED IN ITS FIRST REALLY SERIOUS ATTEMPTS TO DEVELOP ITS OWN PETROLEUM RESOURCES. ABANDONING ITS GO IT ALONE POLICIES, THE GOI HAS BEGUN TO EXPLORE FOR OFFSHORE OIL IN ITS COASTAL AREAS OF THE ARABIAN SEA -- UTILIZING AMERICAN EQUIPMENT AND KNOW-HOW. THUS FAR, HOWEVER, ONLY ONE DRILL IS EMPLOYED. ADDITIONAL EQUIPMENT MUST BE PURCHASED SOON IF THIS EFFORT IS TO BE ESCALATED TO THE OPERATING LEVEL CALLED FOR. ALSO, THE GOVERNMENT IS ENTERTAINING BIDS FOR FOREIGN CONTRACTORS FOR OFFSHORE OIL PROFIT-SHARING EXPLORATION CONTRACTS WHICH, IF CONCLUDED, WILL OPEN THE DOOR FOR LONG RANGE IMPORTS OF U.S. EQUIPMENT -- REGARDLESS OF WHETHER THE SELECTED CONTRACTORS ARE AMERICAN FIRMS OR OTHERS. WE HAVE ACTIVELY PURSUED SALES ASSISTANCE TO (AND FOR) AMERICAN OILFIELD EQUIPMENT MANUFACTURERS, AND WILL ACCELERATE THIS EFFORT AS EACH NEW AREA OF NEED BECOMES EVIDENT.

4. ONE SPECIFIC EXAMPLE OF INDIAN INTEREST (AND EMBASSY SUPPORT) IS ONGC'S (THE GOI'S MONOPOLY DEALING WITH EXPLORATION AND DEVELOPMENT) DECISION TO SEND A MISSION TO THE UNITED STATES TO OBTAIN ONSHORE DEEP DRILLING RIGS ON CASH PURCHASE BASIS. THE MISSION HAS BEEN AUTHORIZED TO GRANT FIRM ORDERS TOTALING DOLS 30.0 MILLION TO MANUFACTURERS. IN THE PAST THIS MISSION WOULD NOT HAVE GONE TO THE UNITED STATES -- THE DECISION NOW IS THAT THEY NEED TO GO WHERE THE BEST EQUIPMENT IS AVAILABLE. WE ARE ASSISTING THE MISSION IN THEIR CONTACTS.

5. THE PETROLEUM SITUATION HAS ALSO DISRUPTED TRADITIONAL SUPPLIES OF PETROLEUM PRODUCTS AND RELATED CHEMICALS. LIMITED OFFICIAL USE

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ANOTHER GOI MISSION VISITED THE UNITED STATES RECENTLY IN AN ATTEMPT TO LOCATE SUPPLIES OF SPECIALTY PETROLEUM PRODUCTS, AGAIN WITH OUR HELP. THE MOST SIGNIFICANT DEVELOPMENT ALONG THESE LINES WAS THE STATE TRADING CORPORATION'S (STC) APPROACH TO THIS EMBASSY FOR ASSISTANCE IN PURCHASING FIFTY CHEMICAL PRODUCTS. THE STC IS INDIA'S PRIMARY IMPORTER AND THE QUANTITIES INCLUDED IN ITS WANT LIST, IF AVAILABLE IN THE US, COULD RESULT IN A VERY

SUBSTANTIAL AND IMMEDIATE INCREASE IN US EXPORTS TO INDIA. FURTHERMORE, IF THIS TRADE OPPORTUNITY RECEIVES THE PRIORITY ATTENTION IT FULLY MERITS, IT COULD RESULT IN THE ESTABLISHMENT OF PERMANENT US OUTLETS IN THE INDIAN MARKET. THIS IS THE FIRST TIME THAT THE STC HAS SOUGHT EMBASSY ASSISTANCE, AND WE ARE ESPECIALLY ANXIOUS TO PROVE RESPONSIVE.

6. THE SECONDARY EFFECTS OF THE PETROLEUM SITUATION APPEAR EVEN MORE IMPORTANT THAN THE PRIMARY EFFECTS. THE AMBASSADOR AND THE ECONOMIC AND COMMERCIAL COUNSELORS HAVE ALSO BEEN DIRECTLY ENGAGED IN ENCOURAGING AND SUPPORTING THE EFFORTS OF MAJOR US AND INDIAN FIRMS TO ESTABLISH NEW JOINT VENTURE OR OTHER INVESTMENTS IN INDIA THAT CAN HELP DEVELOP NEW COAL-DERIVATIVE PRODUCTS (E.G., FERTILIZERS, DISTILLATES, ETC.) FROM INDIA'S EXTENSIVE COAL DEPOSITS. THESE PRODUCTS WOULD ENABLE INDIA TO PRODUCE LOCALLY MANY ITEMS CURRENTLY MANUFACTURED FROM IMPORTED PETROLEUM OR PETROLEUM-DERIVATIVE RAW MATERIALS. THE MOST IMPORTANT OF THESE INVOLVES UNION CARBIDE (SEE MEMCON) DATED JANUARY 8, 1974) WITH ITS PROPOSAL FOR AN INVESTMENT OF CLOSE TO ONE HALF BILLION DOLLARS.

7. THE COMMERCIAL SECTION IS PREPARING TRADE AND INVESTMENT OPPORTUNITIES ON BEHALF OF A MAJOR INDIAN INDUSTRIAL ENTERPRISE, DUNCAN BROTHERS PVT. LTD., WHO IS INTERESTED IN SETTING UP A PROJECT UTILIZING US COAL GASIFICATION TECHNOLOGY AND FURTHER SUCH LICENSING/ INVESTMENT/SALES OPPORTUNITIES ARE EXPECTED. WE HAVE ALSO BEEN ASSISTING THE JOY MANUFACTURING CO., PITTSBURG, TO SECURE A MORE EFFECTIVE AGENCY/REPRESENTATION AFFILIATION IN INDIA FOR ITS COAL MINING MACHINERY. SIMILAR SERVICES HAVE ALSO BEEN PROVIDED TO DU PONT AND DOW CHEMICAL.

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TO SECSTATE WASHDC PRIORITY 0124

INFO USDOC WASHDC

AMCONSUL BOMBAY

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LIMITED OFFICIAL USE SECTION 2 OF 2 NEW DELHI 3252

E.O. 11652: N/A

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ENERGY SITUATION

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8. THE INDIRECT IMPACT OF THE ENERGY SITUATION HAS AS YET NOT BEEN SO DRAMATIC BUT IN THE LONGER RUN IS LIKELY TO BE THE MOST PROFOUND. INDIA HAS FOUND THAT IT MUST RATIONALIZE ITS DOMESTIC INDUSTRIAL POSITION AND EXPAND ITS EXPORTS IF ANY ECONOMIC GROWTH IS TO BE ATTAINED. THIS HAS LED TO A SUBSTANTIAL EASING OF THE RESTRICTIONS ON INDUSTRIAL EXPANSION, PARTICULARLY IN THE FIELD OF HARD MINERALS. IN A BID TO OBTAIN ADDITIONAL ASSURED SUPPLIES OF CRUDE OIL, THE GOI HAS ANNOUNCED PLANS TO INITIATE LARGE SCALE EXPORTS OF PELLETIZED IRON ORE, ALUMINA, CEMENT, IRON AND STEEL PRODUCTS, FISHING BOATS AND ENGINEERING GOODS TO IRAN. THE MAGNITUDE OF THIS LIMITED OFFICIAL USE

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EFFORT IS SUCH THAT FOREIGN COLLABORATION (AND/OR FOREIGN-COMPANY CONTRACTUAL ASSISTANCE) APPEARS TO BE NECESSARY IN CERTAIN FIELDS OF ENDEAVOR AT LEAST. AGAIN, AMERICAN EQUIPMENT AND EXPERTISE ARE THE BEST GUARANTEE THE GOI (AND IRAN) WOULD HAVE OF BRINGING THESE COMMODITIES INTO PRODUCTION ON TIME, AND INACCORDANCE WITH THE QUALITY AND QUANTITY SPECIFICATIONS TO BE DEMANDED BY IRAN. WE WILL ACTIVELY FURTHER ALL BUSINESS OPPORTUNITIES IN THESE (AND RELATED) FIELDS AS THEY ARISE.

9. WHILE GOI ATTITUDES REMAIN AMBIVALENT, FOREIGN INVESTMENT AND LICENSING PROPOSALS ARE BEING CONSIDERED, AND EVEN APPROVED, ALONG LINES THAT NEVER WOULD HAVE EVEN BEEN ADVANCED A YEAR AGO. THE LATEST AND MOST SIGNIFICANT GOI APPROVALS PERMITTED UNION CARBIDE TO EXPAND ITS CHEMICAL PRODUCTION AND ALLOWED ENGLEHARD INDUSTRIES TO OBTAIN A 40 PERCENT EQUITY IN A NEW PROJECT INVOLVING MANUFACTURE AND EXPORT OF FERROCHROME. THESE AND OTHER INVESTMENTS OFFER GOOD MARKET OPPORTUNITIES FOR US EXPORTERS, ENGINEERING FIRMS AND BANKS.

10. THE FINANCIAL ASPECTS OF THE ENERGY SITUATION SHOULD NOT BE OVERLOOKED. AS INDIA FACES SIGNIFICANT FOREIGN EXCHANGE DIFFICULTIES AND YET NEEDS TO OBTAIN CAPITAL AND KNOWHOW TO EXPAND EXPORT INDUSTRIES EXTERNAL FINANCING BECOMES CRUCIAL. US BANKS HAVE MADE OFFERS OF STANDBY LINES OF CREDIT RANGING INTO THE HUNDREDS OF MILLIONS OF DOLLARS. THE GOI HAS NOT ACTED ON ANY OF THESE PROPOSALS AS YET.

11. WHAT IS THE LESSON TO BE DRAWN FROM THE ABOVE? IN OUR VIEW IT IS THAT INDIA IS LEARNING THAT IT MUST ADAPT TO AN ECONOMIC SITUATION COMPLETELY OUTSIDE ITS OWN CONTROL. IN SUCH A SITUATION, IDEOLOGY TAKES A BACK SEAT AND IT IS THOSE SUPPLIERS WHO CAN BE FLEXIBLE AND PROVIDE THE BEST GOODS, TECHNOLOGY AND FINANCING THAT WILL GET THE BUSINESS. AT THIS POINT, US FIRMS HAVE A CLEAR ADVANTAGE AND ARE UTILIZING THIS ADVANTAGE EFFECTIVELY. CLOSE PRIVATE FIRM/EMBASSY COOPERATION IS ESSENTIAL, IN A COUNTRY SUCH AS INDIA WHERE THE GOVERNMENT PLAYS AN ALL PERVASIVE ROLE IN THE ECONOMY.

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12. WE HAVE FEW SPECIFIC SUGGESTIONS OF A NOVEL NATURE TO OFFER. IT WOULD BE USEFUL AND WE BELIEVE PRODUCTIVE IF STATE, COMMERCE OR INTERIOR COULD PROVIDE THE EMBASSY WITH MATERIAL, E.G., ARTICLES, FROM MINING, CHEMICAL AND FERTILIZER TRADE JOURNALS THAT WOULD BE TIMELY AND HELPFUL IN INTRODUCING NEW AMERICAN PRODUCTS AND TECHNIQUES. WE WOULD BE WILLING, WORKING IN COLLABORATION WITH USIS, TO REPRODUCE THESE IN OUR EMBASSY PUBLICATIONS. WE COULD ALSO MAKE SPECIAL REPRODUCTIONS FOR DISSEMINATION TO A MAILING LIST OF SELECTED INDIAN OFFICIALS AND BUSINESS EXECUTIVES WHO CAN BE CLASSIFIED AS THE DECISION MAKERS IN RELEVANT INDIAN INDUSTRIAL ENTERPRISES OR GOVERNMENT AGENCIES. THE EMBASSY WOULD ALSO WELCOME INDUSTRIAL FILMS, VIDEO TAPES, OR SLIDE PRESENTATIONS ON THE ABOVE. GIVEN THESE ESSENTIAL TOOLS WE WOULD BE WILLING TO MOUNT

TECHNICAL SEMINARS AT THE MOST APPROPRIATE INDIAN CENTERS
UTILIZING THE SERVICES OF OUR OWN AND, HOPEFULLY, US COMPANY
LOCAL TALENT.

13. FINALLY, WE SHOULD ENCOURAGE US EXPORTERS TO BE
FLXIBLE IN THEIR FINANCING. IN COUNTRIES UCH AS INDIA
THERE ARE ALMOST UNLIMITED SALES OPPORTUNITIES IF TH
FINANCING IS RIGHT. THIS REQUIRES MUCH MORE THAN CON-
VENTIONAL OR EXPORT-IMPORT BANK ASSISTANCE. IT REQUIRES
A WILLINGNESS TO EXPLORE VARIOUS FORMS OF BARTER AND SIMI
BARTER ARRANGEMENTS, E.G., MACHINERY EXPORTS FOR THE
PRODUCTS OF SUCH MACHINES, AS WELL AS METHODS PERHAPS
UNIQUE TO INDIA SUCH AS SWITCH AND REVERSE SWITCH TRADING.
THOSE FIRMS THAT CAN ADAPT TO THESE CONDITIONS HAVE AN
EXTREMELY BRIGHT MARKET OUTLOOK.
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